

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

**April 21, 2008** 

The Investment Committee met on Monday, April 21, 2008 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:35 a.m. and the following members were present:

George Diehr, Chair
Marjorie Berte
John Chiang
Rob Feckner
David Gilb, represented by Greg Beatty
Henry Jones
Bill Lockyer, represented by Steve Coony
Louis F. Moret
Tony Oliveira
Anne Sheehan
Kurato Shimada
Charles Valdes

Terry McGuire represented John Chiang

Investment Committee members excused: Priya Mathur, Vice Chair

#### AGENDA ITEM 2 – APPROVAL OF MARCH 2008 MEETING MINUTES

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** that the March 17, 2008 Open Session minutes be approved as presented.

#### AGENDA ITEM 3 – POLICY SUBCOMMITTEE REPORT

Mr. Jones, Policy Subcommittee Chair, presented the March 17, 2008 Subcommittee Meeting Summary.

On **MOTION** by the Subcommittee, the Investment Committee approved:

- Revision of the Certification of Responsible Contractor Status Form
- Revision of the Global Proxy Voting Policy
- Adoption of the consolidated Global Principles of Accountable Corporate
  Governance, as presented, and repeal of the existing Principles (Core Principles of
  Accountable Corporate Governance and the Global Principles of Accountable
  Corporate Governance)

The Subcommittee also deliberated upon the following Global Equity Policy Review and Consolidation Project items:

- 1. Revision of Policy on Corporate Governance Program
- 2. Adoption of Policy on Externally Managed Strategies (consolidation of Global Equity externally managed programs) and repeal of the following related policies:
  - Active Domestic Equities Externally Managed
  - Active International Equities Externally Managed
  - Domestic Enhanced Index Strategy Externally Managed
  - International Enhanced Index Strategy Externally Managed
  - Relaxed Long-Only Domestic Equity Strategy Externally Managed
- 3. Revision of Policy on Monitoring Externally Managed Portfolios
- 4. Repeal of Policy on Passive International Equities Externally Managed
- 5. Adoption of Policy on Internally Managed Affiliate Equity Index Funds (consolidation of policies for Standard and Poor's 500 Equity Index Fund Internally Managed Programs) and repeal of the following related policies:
  - Deferred Compensation S&P 500 Equity Index Fund Internally Managed
  - Pooled S&P 500 Equity Index Fund Internally Managed
- 6. Revision of Policy on Internally Managed Global Equity Index Funds and repeal of Policy on Dynamic Completion Fund
- 7. Revision of Policy on Internally Managed Global Enhanced Equity Strategies
- 8. Revision of Policy on Risk Managed Absolute Return Strategies Program

On **MOTION** by the Subcommittee, the Investment Committee approved the revised Global Equity policies.

The next Policy Subcommittee meeting is scheduled for April 21, 2008, upon adjournment of other meetings.

#### **AGENDA ITEM 4 – REAL ESTATE**

There were no items to report.

### AGENDA ITEM 5 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

### AGENDA ITEM 6a – INFLATION-LINKED ASSET CLASS (ILAC), Implementation Update

Farouki Majeed, Senior Investment Officer, reported on implementation of the Inflation-Linked Asset Class (ILAC), including the commodities, inflation-linked bonds, infrastructure, and forestland components. An update was provided for each component in the areas of investment policies, staffing, delegations, incentive plan, and investment implementation.

Staff will continue to provide ILAC implementation updates as appropriate.

# AGENDA ITEM 7a – GLOBAL FIXED INCOME, Credit Enhancement Program Update

Curtis Ishii, Senior Investment Officer, and Dan Kiefer, Portfolio Manager, presented the item.

Staff provided an update on the auction rate market in California and strategies for the Credit Enhancement Program (CEP) to assist California municipal issuers through the current liquidity crunch. While staff has been involved in the conversion of California auction securities into other financing vehicles, the CEP is restricted under the IRS Code to enhance only 25% of each series or sub-series of any single California transaction. Despite the IRS limitation, staff is actively engaged in researching and developing broader strategies to assist municipal issuers in California and nationwide.

Peter Mixon, General Counsel, and Pat Pechtel, Assistant Chief Counsel, responded to questions from the Committee regarding the IRS Code limitations.

Staff will continue to provide updates as appropriate.

# AGENDA ITEM 7b – GLOBAL FIXED INCOME, Member Home Loan Program Update

Curtis Ishii, Senior Investment Officer, Arnie Phillips, Senior Portfolio Manager, and Dan Kiefer, Portfolio Manager, presented the item.

At the March 2008 meeting, the Board requested that staff report back as to whether CalPERS members were having difficulty obtaining loans through the Member Home Loan Program (MHLP) in light of the current credit crunch. Staff, in coordination with CalPERS' MHLP program manager, CitiMortgage, has examined CalPERS loan practices and standards. CalPERS' MHLP continues to offer CalPERS members access to high quality mortgage loans for home purchases and refinancing. However, it

is clear that changes to FNMA loan standards, higher loan fees, declining real estate values and general mortgage industry trends have impacted members' costs and access to mortgages.

Dave Elder, interested party, urged CalPERS to look to the CalSTRS mortgage program for examples of alternative financing methods.

The Chair directed staff to provide the Investment Committee with a profile of MHLP borrowers, and also to report back regarding possible alternatives to assist members with the additional 5% down payment being required by Fannie Mae.

### AGENDA ITEM 8a – GLOBAL EQUITY, Corporate Governance – Corporate Board Diversity

Eric Baggesen, Interim Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item.

In February 2008, California State Controller John Chiang sent a letter to the Investment Committee Chair requesting consideration of enhancing the importance of corporate board diversity within CalPERS' corporate governance activities. Subsequently, at the direction of the Investment Committee and the Policy Subcommittee, staff was directed to explore options CalPERS could take to elevate the importance of corporate board diversity, including possible policy and Global Principles of Accountable Corporate Governance amendments.

Staff provided an analysis of CalPERS' portfolio position and general marketplace activities and recommended additional activity options for inclusion in the Corporate Governance Program to address this issue.

On **MOTION** by Mr. Chiang, **SECONDED** and **CARRIED** that staff be directed to:

- 1. Pursue inclusion of board diversity through the Focus List company engagement program.
- 2. Engage various proxy and corporate governance service providers on their corporate board diversity policies with the objective of encouraging them to adopt a position consistent with CalPERS' position on this issue.
- 3. Develop a white paper on best practices for corporations to follow in seeking diversity on their boards, including how diversity is linked to performance and baseline information on the composition of corporate boards and management.
- 4. Report back to the Committee in six months.

### AGENDA ITEM 8b – GLOBAL EQUITY, Environmental Initiatives

Eric Baggesen, Interim Senior Investment Officer, presented the item.

In February 2008, California State Controller John Chiang sent a letter to the Investment Committee Chair regarding proposed improvements to CalPERS Corporate Governance Environmental Strategic Plan. Staff provided an update on the Corporate Governance Environmental Focus List Company Engagement Program and presented two proposals for the Committee's consideration relevant to the Ceres Corporate Governance Checklist and collaboration with the Investor Network on Climate Risk (INCR).

Kirsten Spalding, Ceres, commented in support of both proposals.

On **MOTION** by Mr. Coony, **SECONDED** and **CARRIED** that staff be directed to proceed with the environmental initiatives to:

- 1. Amend the Global Principles of Accountable Corporate Governance to include reference to the 14 point Ceres Corporate Governance Checklist.
- 2. Work with other INCR investors to develop a survey of public equity investment managers and ask INCR to analyze the results and prepare a report on its findings from the survey responses. CalPERS, along with other INCR investors would then use the report to identify best practices amongst managers and determine ways in which this information can be used as part of the review process for current and prospective managers.

### AGENDA ITEM 8c – GLOBAL EQUITY, Investor's Guide to Hedge Funds Investing

Russell Read, Chief Investment Officer, provided a presentation about the work of the President's Working Group on Financial Markets (PWG).

In late September 2007, the PWG requested (1) that an Investors' Committee, chaired by Russell Read, draft a <u>Principles and Practices for Hedge Fund Investors</u>; and (2) that an Asset Managers' Committee, chaired by Eric Mindich, CEO and founder of Eaton Park Capital Management, draft a <u>Best Practices for the Hedge Fund Industry</u>. Both committees designed their documents to enhance market discipline, mitigate systemic risk, and augment regulatory safeguards regarding investor protection. The documents will provide guidance relevant to hedge funds investment decisions as well as the management and oversight of hedge fund investments.

Copies of the <u>Principles and Practices for Hedge Fund Investors</u> were distributed to Investment Committee members. The report is online at http://www.amaicmte.org.

### AGENDA ITEM 8d – GLOBAL EQUITY, Corporate Governance Update – April 2008 Council of Institutional Investors Meeting (CII)

Russell Read, Chief Investment Officer, announced that Dennis Johnson, Senior Portfolio Manager–Corporate Governance, was elected to Chair the Council of Institutional Investors' Board of Directors.

Dennis Johnson provided highlights from the April CII meeting, including election of Board members, bylaw and policy changes, and initiatives for the next year.

### AGENDA ITEM 9a - SUPPLEMENTAL INCOME PLANS (SIP), Annual Review

Geraldine Jimenez, Division Chief, Supplemental Income Plans, provided an overview of the SIP program goals and 2007 accomplishments, including improved services and higher quality investment options while reducing fees. Staff reviewed the development of Agency Marketing Strategies and Participation Communication Strategies and will report back to the Investment Committee in June with additional improvements for 2008.

Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

### AGENDA ITEM 9b – SUPPLEMENTAL INCOME PLANS (SIP), Ratification of 401(k) Administration Plan

Geraldine Jimenez, Division Chief, Supplemental Income Plans, reviewed the history of Placer County's adoption of the CalPERS 457 Plan and appointment of CalPERS as the administrator of the County's 401(k) Plan.

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** to ratify CalPERS staff's decisions to provide administration and asset management services to the Placer County's 401(k) Plan.

# AGENDA ITEM 10a – LEGISLATION, SB 1550 (Florez) – Corporate Governance: Climate Change Disclosure

Danny Brown, Assistant Division Chief, Office of Governmental Affairs, presented the item.

SB 1550 would require the Secretary of State, in consultation with the investment community, to establish an investor-based climate change disclosure standard for use by publicly held companies doing business in California.

The Board's Legislative Policy Standards do not directly address the issues in SB 1550. However, the provisions of this bill are consistent with the objective of the Board's Corporate Governance Environmental Strategic Plan and, therefore, staff recommends the Board adopt a support position on SB 1550.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to approve a support position for SB 1550 (Florez) – as introduced February 22, 2008.

Ms. Berte voted no.

# AGENDA ITEM 11a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

Russell Read, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of February 29, 2008, was approximately \$241.7 billion and the total book value was approximately \$204.2 billion.

# AGENDA ITEM 11b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

#### AGENDA ITEM 12 – DRAFT MAY 2008 AGENDA

The Committee accepted the proposed May 12, 2008 agenda. The Chair directed that in the future the scheduled start time for open session be moved from 9:00 to 9:30 a.m.

#### **AGENDA ITEM 13 – PUBLIC COMMENT**

There were no additional comments from the public.

The meeting was adjourned at 11:30 a.m.

The next Investment Committee meeting is scheduled for May 12, 2008 in Sacramento, California.

Kenneth W. Marzion
Interim Chief Executive Officer

Investment Committee 7 April 21, 2008